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**FISCAL IMPACT STATEMENT**

**LS 6448**

**BILL NUMBER:** HB 1233

**NOTE PREPARED:** Dec 28, 2005

**BILL AMENDED:**

**SUBJECT:** Property Tax Rates and Levies.

**FIRST AUTHOR:** Rep. Saunders

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows the county auditor to reduce a taxing unit's assessed value (AV) used to set property tax rates for the following year to enable the unit to absorb the effects of reduced property tax collections expected to result from successful AV appeals. It limits the amount of the reduction.

The bill sets a civil taxing unit's maximum property tax levy for property taxes payable in 2007 at the amount that would have applied for taxes payable in 2006 if the 2004 change that eliminated unused maximum levy capacity from the determination of the next year's maximum levy had not been enacted. It reverses that change for future years.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** *Department of Local Government Finance (DLGF).* If, under the bill, a county auditor reduces a taxing unit's certified AV, the DLGF must review the budget, tax rate, and tax levy of the taxing unit. The county auditor would be permitted to appeal to the DLGF to reduce a taxing unit's AV by an amount that exceeds the limits. The DLGF could then require the county auditor to submit supporting information with the county auditor's appeal. The DLGF would be required to consider the appeal and may approve, modify and approve, or reject the amount of the reduction sought. The DLGF could not certify a taxing unit's budget, tax rate, or tax levy if the DLGF determines that the county auditor has reduced the taxing unit's AV by more than the amount authorized. These provisions would add administrative expenses to the DLGF. However, it is expected that the DLGF should be able to cover any additional expenses given its existing resources.

*Levy Banking.* The state pays a 20% Property Tax Replacement Credit (PTRC) on the amount of levy that is within a civil unit's maximum levy limit that is attributable to property other than business personal property. Likewise, the state pays a 20% Homestead Credit on the net tax due (after PTRC) of levies that are within the limit and attributable to homesteads.

Subject to appropriation, if all affected units utilize the entire maximum levy increase that would be allowed under this proposal, the cost of PTRC and Homestead Credits could increase by as much as \$25 M in FY 2007 (partial year), \$76 M in FY 2008, and \$79 M in FY 2009. The actual additional cost could be less than these estimates depending on the actual amount of property tax levies imposed locally.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). It is estimated that the FY 2007 appropriation for PTRC and Homestead Credits would not be sufficient to pay the additional costs incurred as a result of this bill. As a result, the 60% school general fund PTRC, 20% real property PTRC, and the 20% Homestead Credit percentages would be proportionately reduced.

The actual state impact for FY 2008 and all following years is indeterminable, since PTRF appropriations for years after FY 2007 have not yet been made.

#### **Explanation of State Revenues:**

#### **Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Reduction in AV.* This bill provides that the county auditor may reduce for a calendar year the taxing unit's AV that is certified to the DLGF and used to set tax rates for the taxing unit for taxes first due and payable in the immediately succeeding calendar year. The county auditor may reduce a taxing unit's AV only to enable the taxing unit to absorb the effects of reduced property tax collections in the immediately succeeding calendar year that are expected to result from successful appeals of AV. The amount of the reduction may not exceed the lesser of 2% of the AV or the total amount of reductions in the AV in the immediately preceding year that resulted from successful appeals. The county auditor may appeal to the DLGF to reduce a taxing unit's AV by an amount that exceeds the limits.

The county auditor must keep separately on the tax duplicate the amount of any reductions made. The county auditor must also include in its certified statement to each political subdivision and the DLGF the amount of the political subdivision's AV reduction. The political subdivision must include in their notice to taxpayers of their estimated budgets, tax rates, and levies, the amount of the political subdivision's certified AV reduction.

The amount of reduction of the AV and the increase in tax rates is indeterminable and will depend on local action.

*Levy Banking.* Prior to P.L. 1-2004, school transportation fund and civil unit maximum levies were calculated by applying a growth quotient to the previous year's maximum levy. So, if a unit levied less than the maximum permissible levy, the unit could "bank" the portion of the maximum levy that was the difference between the maximum and the actual and apply this "banked levy" in subsequent years. P.L. 1-2004 eliminated the "banked levy" option by applying the growth quotient to the unit's actual levy. The bill re-establishes the use of "levy banking" for civil units.

Under this bill, beginning with taxes payable in CY 2007, civil unit maximum levies would be based on what

their maximum levies in pay 2004, 2005, and 2006, would have been had the maximum levy banking been in effect. This provision will allow units to impose a levy that will be greater than the levy that is available to them under existing statute. The increase in the levy that will result from the proposal will depend on local action. The restoration would not apply to school transportation funds.

Assuming that each taxing unit fully utilizes its 2006 maximum levy under current law, the total 2007 maximum levy authority for civil units is estimated at \$2,825 M. This bill would increase those maximum levies for 2007 by about \$300 M. Increases were estimated in 674 of 915 township firefighting funds and 1,620 of 2,125 unit-level maximum levies. Overall, 75% of maximum levies would increase.

Each local affected taxing unit would decide whether or not to increase its levy to use all or part of the increase in the limit. Under this proposal, if all maximum levies were fully utilized each year, gross property tax levies would increase by an estimated \$300 M in CY 2007, \$312 M in CY 2008, and \$325 M in CY 2009.

Subject to PTRF appropriation, net levies after PTRC and Homestead Credits are paid would increase by an estimated \$225 M in CY 2007, \$234 M in CY 2008, and \$243 M in CY 2009 if all maximum levies are fully utilized.

The actual increase in net levies could, however, be less than these estimates subject to local levy decisions. The actual increase in net levies could also be greater than these estimates subject to state PTRF appropriations.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** All civil taxing units and school corporations; County auditors.

**Information Sources:** Local Government Database.

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